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UNCLAS SECTION 01 OF 04 HO CHI MINH CITY 001088

SENSITIVE
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STATE FOR EAP/MLS, USAID/ANE, EEB/TPP/BTA/ANA, OES/STC
USDOC FOR 4431/MAC/AP/OPB/VLC/HPPHO
HHS/OSSI/DSI PASS TO OGHA (MABDOO) AND FDA (MLUMPKIN/RCAMPBELL)
CDC FOR COGH AND CCEHIP/NCEH
TREASURY FOR CHUN

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SUBJECT: DIVERGENT DEVELOPMENT PATHS IN THREE "DEEP SOUTH" PROVINCES

REF: HCMC 1075

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11. (U) Summary. Vietnam's "deep south" provinces of Ca Mau, Bac Lieu and Soc Trang are among the roughest business environments in the southern provinces of Vietnam. Both private and state-owned enterprises say they are struggling with poor infrastructure, weak consumer demand and inadequate access to capital, especially during this global economic downturn. Until recently, one bright spot had been aquaculture, where the "deep south" provinces have leveraged environmental conditions and cheap labor to become a global player in fish and seafood trade.

During our recent visit, officials raised concerns over aquaculture trade issues because industry concentration makes the "deep south" particularly vulnerable to declining aquaculture export markets. Since this region is also among the World's most vulnerable to climate change, provincial leaders applauded broadening bilateral cooperation with the United States on the environment (e.g., the recently opened Delta Research and Global Observation Network institute -- DRAGON).
End summary.

12. (SBU) EconOff visited Ca Mau, Bac Lieu and Soc Trang provinces in late November to talk with provincial leaders, U.S. investors, state-owned enterprises and companies trading with the United States. Each province is poor, with per capita incomes ranging from 625 dollars per year in Soc Trang to 673 dollars per year in Bac Lieu, well below the national average of 835 dollars per year. According to provincial officials, incomes are rising as the pangasius ("catfish") and seafood processing industry grows. In the region, agriculture and aqua-culture dominate the economy while industry and services are poorly developed. Interestingly, these provinces have adopted different attitudes toward economic reform, as demonstrated in the USAID-funded Vietnam Provincial Competitiveness Index (VPCI), the annual business survey ranking each of Vietnam's provinces from one to 64. The leadership in each province was keenly aware of their rank in this year's VPCI survey, but none more-so than Ca Mau.

Ca Mau: Building From a Low Base

13. (SBU) EconOff met with the provincial People's Committees (PPC) and the Departments of Planning and Investment (DPI); Industry and Trade (DOI); External Relations (ERO); Agriculture (DOA) in each province. Officials in Ca Mau told EconOff they are focusing now on improving transparency and government

accountability in order to attract foreign investment.

[Comment: This is clearly a provincial, even national priority.

In an extraordinary move this September, Central Party Committee member Nguyen Tuan Khanh (then Deputy Head of the powerful Communist Party Central Organizing Committee) was appointed Ca Mau Party Secretary to clean up the province, replacing notoriously corrupt former Party Secretary Nguyen Thanh Binh. End comment.] Through efforts to streamline bureaucracy and improve infrastructure, Ca Mau province has risen steadily from being of Vietnam's worst performing provinces at number 57 in 2006, to number 29 in 2007 to number 18 in the just-released 2008 survey. In fact, in 2008 Ca Mau's ranking increased more than that of any other province in Vietnam over 2007.

14. (SBU) Ca Mau does have some advantages -- land for development is readily available because the soil is not suitable for commercial rice cultivation, DPI said, and the province has a one-stop shop for investors to handle license applications. PCC representatives said the focus on creating a better business climate is starting to yield results -- Ca Mau now has five FDI projects worth 10 million dollars.

15. (SBU) The occupancy rate at the one American-invested hotel in Ca Mau city has climbed over the last year, up from 20 percent to 40 percent, the investor said, adding that he believes this is due to Ca Mau's improved investment environment. The U.S. investor point out that while infrastructure is a challenge for the Mekong Delta as a whole, Ca Mau does have daily flights to and from Ho Chi Minh City (HCMC), giving it a distinct advantage over its neighboring provinces. New roads under construction using Central Government funds have enable construction of other projects, for example the Malaysia-Vietnam joint venture Ca Mau I power and fertilizer plant, a DPI official stated.

Bac Lieu: Falling into the Ocean

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16. (SBU) Bac Lieu province provided a marked contrast. Eleven years ago the province asked the central government to split Bac Lieu off from the province then called Minh Hai because the budget and state investment were being spent disproportionately in Ca Mau City. Since then, Bac Lieu enjoyed a flurry of central government funded investment in the province's infrastructure (as well as one of the "nicest" People's Committee and Party Headquarters complexes in the Mekong Delta).

In recent years though, Bac Lieu province is slowly settling to the bottom, as measured by the VPCI. The province has fallen from number 58 in 2006 to number 60 in 2007 to number 62 in 2008. In contrast to Ca Mau's 600 million dollars in seafood exports, Bac Lieu expects less than 300 million dollars in total exports.

17. (SBU) As if reading from a script, each provincial official we talked with thought increasing seafood exports, modernizing agriculture and vague "eco-tourism" projects were the building blocks of their province's economic future. The lack of skilled workers and poor infrastructure (most exports go by boat to HCMC) must be overcome if the province is to attract investment, provincial officials agreed. The southern provinces are also at risk from climate change, they added, and will suffer from saline encroachment and disruptive weather patterns including floods.

18. (SBU) One of Bac Lieu's oldest FDI projects is a U.S.-invested shrimp farm, licensed in 1994 when solid relationships with local officials were a determining factor in a ventures success. A lot has changed in 15 years, the manager said. Now the rapidly rising cost of inputs, the threat of trade remedies and evolving food safety regulations are the biggest challenges this investment faces, according to the director. Management there said the low cost of labor and the company owner's Bac Lieu roots were the reason he continues to build on his initial 10 million dollar investment.

Soc Trang: Middle of the Road

¶9. (SBU) Soc Trang province chose a third way. Led by steady People's Committee Chairman (and local Viet Cong revolutionary prior to 1975) Huynh Thanh Hiep since July 2003, Soc Trang's VPCI ranking bobbed up from number 19 in 2006 to number 11 in 2007 before dipping back down to 29 in 2008. In 2007 in particular, the PPC chief of staff told EconOff, the province's ranking improved because the province focused on streamlining official procedures and created a one-stop shop for licensing. Transparency is another crucial effort, he said, adding the PPC is trying to change the mindset from "responding before the deadline" to responding "as soon as possible" to applications.

¶10. (SBU) Still, just two FDI projects are located in Soc Trang, a Taiwanese food aquaculture company and a U.S.-invested jewelry factory licensed in 2007. According to the provincial DPI, PetroVietnam was also recently licensed to build a 650 mw coal-fired power plant in Soc Trang.

¶11. (SBU) Land is widely available for industrial parks and investors, PPC chief of staff told EconOff, and in fact the province is plans to build seven new industrial parks once the PPC has decided on zoning. DPI added that relocating landowners has been an issue for Soc Trang for two reasons: price and method. In the past, price was the biggest issues where land owners would agree to a price then seek additional compensation later. Outside of investment parks the land is largely owned by farmer who can negotiate compensation to sell their land use rights (LUR). To help improve transparency, the Soc Trang PPC has directed that Department of Natural Resources and Environment (DoNRE) officials "be held responsible" for land issues relating to investment.

Provinces Divesting From SOEs, but Central SOEs Remain

¶12. (SBU) Leaders in each of these three provinces told Econoff that they had privatized most if not all of their provincial state-owned enterprises (SOEs). Still, the largest investment underway in the "deep south" is the natural gas/fertilizer plant at Ca Mau, a partnership between centrally state-owned enterprise PetroVietnam and a Malaysian company. Unfortunately, while our contacts in the province said they were eager to meet to talk about the projects and demonstrate progress, they later

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called to cancel, saying that headquarters in Hanoi would not grant permission. People's Committee Chief of Staff told EconOff Ca Mau I "is a Central Government project located in the province, we don't have any knowledge of its current status or influence over its operations."

¶13. (SBU) Ca Mau province has just three SOEs, DoIT officials told us, working on water supply, forestry development and environmental protection. However, also present is Petrolimex, a central government-owned SOE trading and retailing fuel. Petrolimex officials told EconOff that it has proven extremely difficult for the central SOE to compete with local companies or grow to 20 percent market share in Ca Mau. Echoing a common concern voiced by foreign investor, the SOE complained the provincial master plan limits retail outlets (e.g., gas stations) in number and location and "somehow our local competitors Ca Mau Materials Company and Bac Lieu Provincial Trading Company have already locked up the good locations."

¶14. (SBU) Bac Lieu DPI and PPC officials said that with the exception of the provincial lottery and water treatment companies, all provincial SOEs have been equitised. The former SOEs pay taxes (and dividends to the government as a shareholder), but the PPC Chief of Staff said the province no longer supervises these enterprises. The director of the lottery SOE said that the company is nevertheless at arm's length from the government aside from regulation by the Ministry of Finance, just paying into the provincial budget as it has since the company's creation 1981.

¶15. (SBU) Equitised SOE companies, especially small- and medium-sized enterprises, have become some of Soc Trang's best performers, according to the provincial People's Committee. For example, fish feed producer SauTau became more efficient and localized decision-making, PPC representatives added.

Adjusting to the U.S. Economic Downturn

¶16. (SBU) Industry leaders in the Delta know that exporters need to diversify their market profile and production. U.S. antidumping action brought against Vietnamese catfish exporters in 2002 seriously harmed the Delta's economy because too much labor and investment was concentrated into too few industries, a Ca Mau seafood processor explained. At that time 50 percent of Vietnam's "catfish" (pangasius) exports went to the United States, he added. Most confirmed that at this time, the prices companies can charge for fish and shrimp exports are being pushed down. One shrimp processor said demand from his existing clients had fallen by 50 percent since this summer, though he was expanding to new customers at lower prices like Costco, Wal-Mart and Sam's Club to make up the difference. Several seafood companies said their current customers are trying to renegotiate payment terms at lower prices, or want to pay on sale rather than upon receipt of consignment.

¶17. (SBU) Each set of provincial leadership noted that inflation, tight monetary policy and high interest rates have hurt companies in their provinces. Vietnam's monetary policy also concerns seafood companies, though May 2008 seems to have been the worst period because of the high inflation and high interest rates, said a shrimp exporter. His Ca Mau factories have improved technologies and procedures so that while salaries climbed 25 percent in keeping with inflation, July 2008 productivity was up 100 percent of July 2007. Most exporters have watched warily as the foreign exchange rates of competitors' currencies (Thailand, India and Indonesia) depreciated relative to the dollar, making Vietnam's exports relatively more expensive.

Comment:

¶18. (SBU) Perhaps because they are amongst the poorest of Vietnam's southern provinces, Ca Mau, Bac Lieu and Soc Trang demonstrate the role of leadership in fostering economic reform. These provinces are generally trying to open their provincial economies, but when it comes to SOEs at least, clearly some tensions remain between provincial and central government. Nevertheless, provinces know they rely on the central government to carry the torch on the big issues: climate change and U.S. trade policy have a profound impact on these provinces, in particular because the U.S. is a major export market for the aquaculture industries that have helped pull many southern

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workers up out of poverty. To end on a brighter note, while outlandishly expensive, we found U.S. table grapes on sale in the Bac Lieu market. End comment.

¶19. (U) This cable was coordinated with Embassy Hanoi.
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